

Message Text

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ACTION STR-07

INFO OCT-01 IO-13 ISO-00 AGRE-00 CEA-01 CIAE-00
COME-00 DODE-00 EB-08 FRB-03 H-01 INR-10 INT-05
L-03 LAB-04 NSAE-00 PA-01 CTME-00 AID-05 SS-15
ITC-01 TRSE-00 SP-02 SOE-02 OMB-01 DOE-15 STRE-00
AF-10 ARA-10 EA-10 EUR-12 NEA-11 ICAE-00 NSCE-00
INRE-00 SSO-00 DOEE-00 /151 W

-----026732 312010Z /63

O 311942Z MAY 78

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TO SECSTATE WASHDC IMMEDIATE 0272

LIMITED OFFICIAL USE SECTION 01 OF 02 GENEVA 08311

USMTN

ACTION STR PASS ELECTRICALLY

FOR AMBASSADOR WOLFF AND KELLY

E.O. 11652: N/A

TAGS: MTN, ETRD

SUBJECT: TPSC RECOMMENDATIONS ON CANADIAN BILATERALS

1. U.S. DEL HAS HAD OPPORTUNITY TO STUDY TPSC-78-65 RELATING TO U.S.-CANADA BILATERALS AND BELIEVES THAT SERIOUS NEGOTIATING PROBLEMS WOULD ARISE FROM PURSUING RECOMMENDATIONS CONTAINED IN THAT PAPER. THE SUGGESTED APPROACH WOULD DELAY AND PERHAPS HALT CANADIAN CONSIDERATION OF U.S. REQUESTS FOR IMPROVEMENT OF THE TARIFF OFFER AND COULD RESULT IN CANADA BECOMING A NONFORMULA COUNTRY. THE PROBABLE IMPACT ON CONCLUDING A PACKAGE BY JULY15 IS SELF-EVIDENT.

2. THE MAJOR PROBLEM STEMS FROM THE EVALUATION IN TPSC-

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78-65 OF THE INITIAL CANADIAN INDUSTRIAL TARIFF OFFER AS PROVIDING ONLY A 27 PER CENT DEPTH OF CUT BASED ON A CONCEPT OF APPLIED RATES. THIS CONTRASTS WITH THE 41 PER CENT DEPTH OF CUT FIGURE USED BY THE U.S. DEL IN ITS BILATERAL DISCUSSIONS AND INCIDENTALLY ALSO USED BY THE EC, NORDIC AND SWISS DELS IN THEIR BILATERALS WITH CANADA. THIS FIGURE IS CALCULATED ON THE GATT BOUND RATES AS THE

BASE FOR APPLICATION OF THE FORMULA. AS WASHINGTON IS AWARE, THE ISSUE OF BASE RATES WAS FULLY EXPLORED IN GROUP TARIFF MEETINGS, AND THE U.S., CANADA, EC, NORDICS, SWISS AND OTHERS TOOK THE POSITION THAT GATT BOUND RATES SHOULD BE THE BASE. THE STATUS OF UNBOUND RATES WAS LESS CLEAR, ALTHOUGH THE U.S. AND THE EC WERE IN AGREEMENT THAT THE APPLIED RATE SHOULD BE USED.

3. THE INTEGRITY OF THE U.S. POSITION VIS-A-VIS JAPAN ON THE BASE RATE ISSUE WOULD NOT BE COMPROMISED BY POSITIONS TAKEN BY THE U.S. REGARDING OTHER PARTICIPANTS SUCH AS THE CANADIANS, NORDICS, AND SWISS. ALL DELEGATIONS RECOGNIZE THE SPECIAL CIRCUMSTANCES OF THE JAPANESE CASE, AND APPROVE THE PRAGMATIC MEANS WHICH THE U.S. HAS USED TO APPROACH THE PROBLEM BILATERALLY WITH JAPAN.

4. THE REQUEST LIST ON CANADA APPENDED TO TPSC-78-65 IS BASED ON ACHIEVING AN EQUIVALENCE OF DEPTH OF CUT, USING 27 PER CENT AS A STARTING POINT. IN ITS BILATERAL DISCUSSIONS WITH CANADA ON TARIFF IMPROVEMENT OVER THE PAST MONTH, THE U.S. DEL HAS USED FIGURES INFORMALLY PROVIDED BY WASHINGTON WHICH WERE BASED ON USING THE 41 PER CENT STARTING LEVEL FOR CANADIAN DEPTH OF CUT. TO SWITCH NOW TO THE NEW FIGURES WILL IMMEDIATELY FOCUS THE ISSUE ON THE DIFFERING CONCEPT OF DEPTH OF CUT AND RAISE AGAIN THE BASE RATE ISSUE AT THIS ADVANCED STAGE OF THE NEGOTIATION. IF THE U.S. INSISTS ON USING THE 27 PER CENT FIGURE, IT IS LIMITED OFFICIAL USE

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LIKELY THE CANADIANS WILL INTERRUPT THE IMPROVEMENT OF OFFERS PROCESS AND RESUME THE ARGUMENT OVER BASE RATES IN WHICH WE SEE NO CHANCE OF GAINING SATISFACTION. MOREOVER, THE CANADIANS WILL SEEK SUPPORT AMONG THE NORDICS AND SWISS AND WISH TO RAISE THE ISSUE IN A MULTILATERAL CONTEXT. ASIDE FROM THE CONSEQUENCES OF DELAY THAT SUCH A MOVE WOULD ENTAIL, THIS KIND OF OPEN QUARREL COULD ONLY BENEFIT THE JAPANESE. A DECISION BY CANADA TO BECOME A NONFORMULA COUNTRY IS ALSO A POSSIBILITY IF THE U.S. INSISTS ON THE 27 PER CENT FIGURE.

5. THE REQUEST LIST APPENDED TO TPSC-78-65 ASKS CANADA TO MOVE TO ONE PER CENT IN THE LARGE MACHINERY CATEGORY 42700 AS AGAINST 7.5 PER CENT WHICH THE U.S. DEL HAD PROPOSED ON MAY 12 (GENEVA 7505). THIS NEW REQUEST IS TANTAMOUNT TO ASKING CANADA TO SCRAP THE MACHINERY PROGRAM WHICH THE CANADIANS HAVE REPEATEDLY TOLD US WAS OUT OF THE QUESTION.

6. ACCORDING TO THE TPSC PAPER, THE MAIN APPLIED RATE PROBLEM (75 PER CENT IN VALUE TERMS) IS IN THE MACHINERY BASKET CATEGORY 42700. IN REALITY, HOWEVER, THIS IS NOT

AN APPLIED RATE PROBLEM BUT A QUESTION AS TO HOW TO DEAL WITH THE MACHINERY PROGRAM. IN THE KR THE U.S. NEGOTIATED AND PAID FOR A CONCESSION FROM CANADA ON 42700 WHICH PROVIDED FOR A 15 PER CENT RATE WITH THE PROVISION THAT IF THE PARTICULAR MACHINE WAS NOT AVAILABLE FROM CANADIAN PRODUCTION IT COULD ENTER DUTY-FREE. THE PROVISION HAS BEEN ADMINISTERED BY CANADA IN AN UNCHANGED FASHION SINCE THE CONCESSION WAS GRANTED. THUS IT IS NOT A QUESTION OF APPLYING A DIFFERENT RATE THAN IS ALREADY PROVIDED FOR IN THE GATT SCHEDULE.

7. BASED ON THE ARGUMENTS CITED ABOVE, THE U.S. DEL RE-

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QUESTS RECONSIDERATION OF TPSC-78-65 SO THAT WE AVOID A CONFRONTATION WITH CANADA ON THE BASE RATE ISSUE. SPECIFICALLY WE URGE THAT 41 PER CENT CONTINUE TO BE THE STARTING POINT FROM WHICH WE SEEK CANADIAN IMPROVEMENTS AND THAT ELIMINATION OF THE MACHINERY PROGRAM NOT BE A SINE QUANON OF THE U.S. POSITION. THE DEL WOULD CONTINUE ITS EFFORTS TO EXPAND BOUND DUTY-FREE TREATMENT IN THE CATEGORY 42700, TO SEEK SUBSTANTIAL REDUCTION IN THE RESIDUAL RATE AND TO ACHIEVE REFORMS IN THE ADMINISTRATION OF THE MACHINERY PROGRAM TO MAKE IT MORE EQUITABLE TO U.S. EXPORTERS.

8. THE U.S. HAS ALREADY SCHEDULED A BILATERAL WITH CANADA AT THE AMBASSADORIAL LEVEL FOR JUNE 7 WITH THE OBJECTIVE OF PRODDING THE CANADIANS TO IMPROVE THEIR OFFERS WITHIN THE TIME FRAME NECESSARY TO MEET THE JULY DEADLINE. WE

WANT TO ENSURE THAT THE CANADIANS ARE NOT AN OBSTACLE TO
CONCLUDING A PACKAGE IN THE SUMMER. PREPARATIONS FOR THE
JUNE 7 BILATERAL WILL PROCEED ON THE ASSUMPTION THAT THE
POSITION OUTLINED IN (7) IS ACCEPTABLE TO WASHINGTON.

9. DRAFTED BY HAMERSCHLAG, MCDONALD
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